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December 29, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: NSTAR Electric, D.T.E. 05-84

Dear Ms. Cottrell:

On behalf of Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company, d/b/a NSTAR Electric (the "Companies"), please find attached the Companies' Reply Comments in the above-referenced proceeding. Please do not hesitate to contact me if you have any questions regarding the filing.

Very truly yours,

John K. Habib

John K. Habib

cc: Jeanne Voveris, Hearing Officer
Ron LeComte, Director, Electric Power Division
Joseph Rogers, Chief, Utilities Division, Office of the Attorney General
Colleen McConnell, Assistant Attorney General
Gary Epler, Senior Counsel, Unitil
Amy Rabinowitz, Assistant General Counsel, National Grid
Stephen Klionsky, Western Massachusetts Electric Company
Jean-Paul St. Germain, Sempra Energy Trading
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Enclosures

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Petition of Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company, d/b/a NSTAR Electric, for approval of revised tariffs M.D.T.E. Nos. 100A, 101A, 200A, 201A, 300A and 301A relating to the terms and conditions for distribution service and competitive suppliers	)	D.T.E. 05-84

REPLY COMMENTS OF NSTAR ELECTRIC

Date: December 29, 2005

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REPLY COMMENTS OF NSTAR ELECTRIC

I. INTRODUCTION

Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company, d/b/a NSTAR Electric ("NSTAR Electric" or the "Companies") hereby submit reply comments in this proceeding pursuant to the schedule issued by the Department of Telecommunications and Energy (the "Department") on December 19, 2005. The Companies' reply comments respond to the initial comments made by a number of interested participants that filed comments with the Department on December 19, 2005, as well as comments made during the December 19, 2005 public hearing in this proceeding.[1]

The comments of these interested parties are in response to the Companies' November 21, 2005 filing, wherein NSTAR Electric has proposed revisions to its Terms and Conditions. The proposed revisions address increased Basic Service load volatility

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1 The Company is in receipt of initial comments submitted by: the Cape Light Compact (the "Compact"); Direct Energy Services, LLC ("Direct"); Massachusetts Division of Energy Resources ("DOER"); National Grid; the Medical, Academic and Scientific Community Organization ("MASCO"), Office of the Attorney General ("Attorney General"); the Retail Energy Supply Association ("RESA"); The Energy Consortium ("TEC"); and TransCanada Power Marketing Ltd. ("TransCanada").

that the Companies have experienced over the past year or so relating to the practice of certain retail competitive suppliers ("Suppliers") switching large Commercial and Industrial ("C&I") customers on and off Basic Service multiple times within a short period, particularly during the term of a customer's Supplier contract, in an effort to take advantage of price fluctuations in the retail generation market (i.e., "gaming"). This practice has resulted in decreased participation in solicitations for Basic Service for the large C&I sector and increased Basic Service prices for those customers that are unable to take advantage of multiple switching. Specifically, the Companies are proposing to prohibit a customer that has switched to Basic Service from a Supplier from returning to that particular Supplier within a six-month period from the effective date of the switch. However, the customer could choose to take service from a different Supplier within that time period, allowing the customer to continue to be served by the competitive market.

II. BACKGROUND OF THE COMPANIES' PROPOSAL

The Companies are raising this issue at this time because their most recent requests for proposals ("RFPs") for Basic Service from wholesale generation suppliers for large C&I customers have produced fewer bids than the Companies had expected or desired, based on historical data. This less vibrant level of response to the Companies' most recent RFPs prompted the Companies to investigate possible causes for this trend. As noted in the pre-filed testimony of James G. Daly, the Companies determined based on information from wholesale suppliers that several of them have been deciding whether to bid on Basic Service RFPs, and at what price, based on the volatility of the large C&I customer load available to be served. This volatility is caused by the migration of large C&I customers on and off Basic Service during the three-month period covered by wholesale Basic Service contracts for large C&I customers. While an "ebb and flow" of customers on and off Basic Service is normal, to the extent that Suppliers switch large C&I customers on and off Basic Service multiple times in a short period, the switching causes an unpredictable and uncontrollable level of volatility that leads to bid assumptions by wholesale suppliers that increase Basic Service costs for those customers that do not participate in multiple switches, namely smaller C&I customers and those larger customers that, because of credit issues, are not attractive to competitive suppliers.

These bid assumptions may be either: (1) to offer a higher bid price to serve Basic Service load than otherwise would be offered if volatility were less of an issue; or (2) not to bid at all, which reduces the amount of competition for the distribution companies in procuring Basic Service supply which also serves to increase prices. Both of these outcomes are detrimental to obtaining the lowest possible prices for customers and contrary to the goals of the Electric Restructuring Act of 1997 (the "Act"). Therefore, NSTAR Electric believes that the practice of multiple switching must be addressed in order to reduce Basic Service load volatility, and consequently, to achieve lower Basic Service prices for the benefit of all customers.

This goal is consistent with the original purpose underlying the policy of Basic Service. As recognized by the Department, Basic Service was designed to serve customers as a short-term, last-resort service, and optimally, should not compete with competitive alternatives. Default Service, D.T.E. 02-40-B at 36. Accordingly, the Department has developed policies governing the provision and procurement of Basic Service by acknowledging the balance that must be achieved between the goal of promoting efficient competitive markets for customers and protecting those customers that may not be attractive to competitive suppliers. To this end, the Department's Basic Service policies have relied on two equally important principles: (1) Basic Service should be provided in a manner that is compatible with the present development and future sustenance of an efficient market structure for retail generation services; and (2) for those customer classes for whom an efficient retail competitive market may not be available, Basic Service should be provided in a manner that ensures that electric service will be available at a reasonable price. Id. at 30. The Companies' proposal is consistent with and furthers these principles in that it attempts to balance the goals of maintaining an efficient retail competitive market for customers, while protecting customers that have difficulty participating in the competitive market. Using Basic Service as a free option for Suppliers to park load for a period of time, sell their power in higher priced wholesale markets and thus increase their profits at the expense of other retail customers was never an intended feature of Basic Service.

The Companies underscore that, by raising this issue before the Department, the Companies are not accusing or suggesting that "gaming" by certain Suppliers is either illegal or inconsistent with the Companies' current Terms and Conditions. However, the Companies believe, as evidenced by support from certain wholesale suppliers and distribution companies, that the modest proposed change to the Companies' Terms and Conditions can produce significant benefits to customers as a whole by reducing Basic Service load volatility associated with gaming and will reduce costs for customers that take Basic Service, whether or not by choice.

The Companies also do not suggest that their proposal is the only option for addressing incremental Basic Service load volatility, and welcome the recommendations of other parties that acknowledge the issue and that offer reasonable suggestions for addressing it in time for the Companies' upcoming Basic Service solicitation for large C&I customers.[2] Indeed, the Companies' proposal would impose minimal restrictions on customer switching compared to other states that have implemented anti-gaming policies, which restrict customers that have left competitive supply for Basic Service from returning to competitive supply for a period of one year.

Based on the Initial Comments filed in this proceeding and those comments offered by some of the participants at the Department's December 19, 2005 public hearing, the Companies believe that allowing changes to the Companies' Terms and Conditions addressed at inhibiting the practice of multiple switching on and off Basic Service during the term of a customer's Supplier contract is the best proposal to address volatility in the near-term in that it is narrowly tailored to limit the practice of gaming, while leaving open the myriad of competitive options available to large C&I customers to procure supply from the competitive market. The Companies address below each of the comments offered by participants in this proceeding.

III. NSTAR ELECTRIC RESPONSE TO COMMENTS

A. Comments in Support

The Companies noted in their initial filing that National Grid, Fitchburg Gas and Electric Light Company d/b/a Unitil, Sempra Energy Trading Corporation and J. Aron & Company each supported the Companies' proposal. National Grid and the Attorney General further expressed their support through their respective initial

[2] To that end, the Companies comments herein offer a proposed revision to the Companies' original proposal in an effort to refine it and to address comments made by certain participants in the proceeding.

comments.

National Grid and the Attorney General each acknowledged the problem of Basic Service volatility, the effect that it has on the bidding practices of wholesale suppliers of Basic Service, and the resulting adverse affect of increased Basic Service prices (Attorney General Comments at 1-2; National Grid Comments at 1-2). National Grid also noted that, to the extent that gaming-related Basic Service costs result in the actual cost of Basic Service exceeding the fixed price option billed to customers, the resulting under-recovery is collected from all customers (National Grid Comments at 2). This point is important because it belies the contention by some retail competitive suppliers that multiple switching does not adversely affect non-C&I customers. Over and under-recoveries of Basic Service costs are recoverable from all Basic Service customers. Accordingly, to the extent that Basic Service load volatility is not addressed with respect to large C&I customers, all Basic Service customers will be required to pay the costs associated with the practice.

B. Comments in Opposition

The Compact, Direct, DOER, MASCO, RESA, TEC and TransCanada each filed comments opposing the Companies' proposal. The Companies respond to the substantive comments of these participants below.

1. The Companies' Proposal Is Allowed by G.L. c. 164 and Consistent with Department Precedent.

Direct alleges that the Companies' proposed remedy is not allowed by law, citing G.L. c. 164's provision authorizing and directing electric companies "to accommodate retail access to generation services and the choice of suppliers by retail customers" unless otherwise provided by G.L. c. 164 (Direct Comments at 6-8). On the contrary, G.L.

c. 164 in no way prohibits the Department from approving the Companies' proposed Terms and Conditions.

NSTAR Electric agrees that the Act, codified in G.L. c. 164, both explicitly and implicitly directed electric companies to allow customers to procure generation services from the competitive market. However, the provision of G.L. c. 164 cited by Direct, by its own terms, requires only that the Department "accommodate" retail access to generation services, and through other provisions of the Act, requires electric companies to restructure their operations in order to allow retail access to occur. See, e.g., G.L. c. 164, § 1B(d) (availability of default service); § 1D (unbundled bills); § 1F (licensure of competitive suppliers and § 1G (transition cost recovery). However, the Act's requirement that the Department "accommodate" retail access is improperly interpreted by Direct as a singular principle that is not to be interpreted and balanced with other important mandates of the Act.

On the contrary, the Act is a comprehensive statute that promotes the development of retail competition as a means to and end, i.e., reducing costs for all customers. See Chapter 164 of the Acts of 1997, § 1, see also Electric Industry Restructuring Plan: Model Rules and Legislative Proposal, D.P.U. 96-100, at 11 (1996). Accordingly, although the Act clearly includes many provisions facilitating the development of a retail competitive market, it also contains many other provisions aimed at protecting customers from the excesses of that market. In short, the Act is principally intended to reduce costs to customers and not at the expense of only achieving retail competition.

For example, G.L. c. 164, § 1F(8)(a)(i) requires each customer choosing a Supplier to "affirmatively choose" such entity through the "signing" of a letter of authorization and, in a related provision, makes it "unlawful" for a Supplier to provide power to a customer without obtaining an affirmative choice from the customer. This provision restricts customer choice by requiring an affirmative authorization by a customer before the customer can be served by a Supplier. The Act also requires Suppliers that do business in Massachusetts to be licensed. G.L. c. 164, § 1F(1). This restricts Massachusetts customers from contracting with an unlicensed Supplier, even if such a Supplier offers less expensive prices than a licensed Supplier. In addition, the Department has directed distribution companies to share customer information with Suppliers on a quarterly basis to foster competition, but explicitly prohibited the sharing of account numbers that would facilitate the Supplier in enrolling a customer, in order to protect customers from "slamming." Competitive Initiatives, D.T.E. 01-54-B at 15 (2002).

Indeed, the very creation of terms and conditions for distribution service and competitive suppliers, which establishes the parameters and requirements associated with customer choice, belies Direct's claim that the Department cannot, by law, impose restrictions on a customer's right to choose a competitive supplier. These are but a few examples of the many ways that G.L. c. 164 and the Department maintains oversight regarding implementation of retail competition. Accordingly, the Department must implement the Act based on the entirety of its provisions. The general rule of statutory construction is that "a statute must be interpreted according to the intent of the Legislature ascertained from all its words construed by the ordinary and approved usage of the language, considered in connection with the cause of its enactment, the mischief or imperfection to be remedied and the main object to be accomplished, to the end that the purpose of its framers may be effectuated." Board of Educ. v. Assessor of Worcester, 368 Mass. 511, 513 (1975), quoting Industrial Fin. Corp., 367 Mass. at 364. Wherever possible, courts give meaning to each word in the statute; no word in a statute should be considered superfluous. See International Org. or Masters, Mates & Pilots v. Woods Hole, Martha's Vineyard & Nantucket S.S. Auth., 392 Mass. 811, 813 (1984); Casa Loma, Inc. v. Alcoholic Beverages Control Comm'n, 377 Mass. 231, 234 (1979).

The Act's provision directing the "accommodation" of retail access is only a general statement, instructing the Department to set up a regulatory structure, consistent with the provisions of the Act, which allows retail access to be available to customers. To give the word "accommodate" a greater meaning is to ignore the basic canon of statutory construction that "the primary source of insight into the intent of the Legislature is the language of the statute." Commonwealth v. Clerk-Magistrate of the West Roxbury Div. of the Dist. Ct. Dept., 439 Mass. 352, 355-56 (2003); International Fid. Ins. Co. v. Wilson, 387 Mass. 841, 853 (1983). "Statutory language should be given effect consistent with its plain meaning and in light of the aim of the Legislature unless to do so would achieve an illogical result." Sullivan v. Brookline, 435 Mass. 353, 360 (2001). Through the Act, the Department is charged with the responsibility to protect customers and to implement policies to reduce customers' costs. Accordingly, contrary to the proposition offered by Direct, neither the Act nor G.L. c. 164 prohibits the Department from approving the Companies' proposal.

2. The Companies Have Provided Sufficient Evidence Identifying the Issue of Gaming and Supporting Their Proposal for Addressing the Issue.

Several of the initial comments take issue with NSTAR Electric's basic premise, i.e., that incremental Basic Service volatility relating to gaming has resulted in increased Basic Service prices for large C&I customers, and question the validity of the Companies' data supporting the proposed revised Terms and Conditions (Direct Comments at 3-6, DOER Comments at 3-5, MASCO Comments at 3-4, RESA Comments at 6-10, TransCanada Comments at 2-4). However, Mr. Daly's pre-filed testimony identified the circumstances prompting the Companies' proposal, i.e., the less vibrant level of response to the Companies' Basic Service solicitations for large C&I customers (Exh. NSTAR-JGD-1, at 3-4). The testimony also noted that the Companies determined, based on their research and inquiries with wholesale generation suppliers, that large C&I customer Basic Service load volatility was one of the major causes (id. at 4). These conclusions are supported by wholesale suppliers and other distribution companies (see Attachment A-1 (letter from J Aron stating that the switching practices are problematic, that they have declined to participate in the request for proposals and that if they were to participate the increased risk would lead them to offer higher prices) and Attachment A-2 (letter from Sempra Energy Trading agreeing with NSTAR Electric's analysis that load volatility increases Basic Service costs); see also National Grid Initial Comments at 1).

The Companies confirmed the information provided by the wholesale suppliers by studying large C&I customer switching practices over a two-year period (id. at 7). The Companies noted that, of the 36 percent of large C&I customers that switched from competitive supply to Basic Service and then back to competitive supply, 82 percent returned to the same competitive supplier, with almost the entirety of the multiple switches attributable to three suppliers. National Grid's Initial Comments identified similar activity on their system through a summary table documenting 664 events of "parking" since January 2003, 69 percent of which were caused by one supplier. This closely parallels the Companies' experience with 72 percent of switches attributable to one supplier. The following table summarizes the switching activity by supplier for NSTAR Electric for 2004 through July 2005.

	2004	**2005 (through July)**
Supplier A	5 customers 5 times 1 customer 4 times 2 customers 3 times 13 customers 2 times	1 customer 3 times 14 customers 2 times
Supplier B	3 customers 2 times	2 customers two times
Supplier C		1 customer 4 times

This level of concentrated switching on and off Basic Service is obviously being driven by factors other than contract activity between Suppliers and retail customers at the natural end of their respective contract terms.

In addition, the Companies have attached an exhibit that shows the load volatility in megawatts ("MW") as measured by Daily Installed Capacity ("ICAP") tag values associated with Basic Service load for 2004 and 2005 through August (see Attachments B-1 and B-2). The large swings in load of 50+/- MW of more over relatively short periods are clearly evident. These swings in load are being caused by individual suppliers switching multiple customers and involve hundreds of accounts. Mr. Daly's testimony also described the large swings in Basic Service load (e.g., 160 MW swings out of a total Basic Service load of 960 MW during a period of a few months) that are directly attributable to large C&I customers (Exh. NSTAR-JGD-1, at 6-7). Most recently, in October 2005, NSTAR Electric experienced a 120 MW swing in one week. Once again, such large load swings are abnormal, do not constitute typical ebb and flow in customer load and materially introduce an unmanageable level of volatility for Basic Service wholesale suppliers. With more load migrating out to the competitive market since the termination of Standard Offer Service in March 2005, there is now more load capable of switching to Basic Service, which further increases the volatility of the load and consequently the price premium.

The Companies have determined that these load swings contribute to increased prices for Basic Service for large C&I customers. This conclusion is also supported by Attachment C, which plots the price for Basic Service versus the forward market for power as published by MW Daily for on-peak power at the time of the Companies' Basic Service contract awards. Attachment C plots these two prices over time. The attachment shows that the price of Basic Service relative to the MW Daily-based forward price is increasing at an alarming rate, indicating that Basic Service pricing is being affected negatively for customers that have little or no alternative in the competitive market. Since the end of Standard Offer Service in March 2005, the premium has risen from a differential of approximately 9 dollars/MWH (approximately 10-15 percent)_ to approximately 16 dollars/MWH (approximately 15-20 percent) in December 2005, and growing.

As a further check on the competitiveness of Basic Service pricing for large customers, NSTAR Electric compared rates for large C&I customers versus small C&I customers when contracts were awarded for both at the same time. Since the small customer class solicitations are conducted twice per year and solicitations for the large group are conducted four times per year, solicitations occur in parallel twice per year. Attachment D shows the rates for each class and calculates the premium large customers pay relative to the small customer class. It can be seen that the premium was a negative 2.3 percent in January 2004 and increased to a positive 3.8 percent by September 2005, resulting in a 6.2 percent swing over a relatively short period of time. Given the increasing volatility of the large C&I load, the premium between large and small Basic Service load pricing is likely to increase further. NSTAR Electric believes that this premium is nearer the 15% to 20% presented in Attachment C. This premium is currently costing Basic Service customers of NSTAR Electric approximately $90 million per year, assuming 900 MW of load, a 15 percent premium at 14 cents per kilowatt-hour. Moreover, even to the extent that others may disagree with the level of cost increase caused by the gaming activity, the fact that it is occurring and that it has an adverse effect on the cost of Basic Service is indisputable; this result can easily be addressed by the Department by prohibiting the gaming activities of certain retail competitive suppliers.

In addition, contrary to the conclusion of RESA that the wholesale price increases experienced by customers are related primarily to supply constraints since Hurricanes Katrina and Rita in September and October 2005 (see RESA Comments at 8), the price premium demonstrated in Attachments C and D was reflected in Basic Service prices procured *prior* to these events. These objective factors support the Companies' contention that bids for Basic Service for large C&I customers have been declining during 2005, while Basic Service prices for this class of customers has increased substantially, particularly as compared to the prices for small C&I customers.

None of the Suppliers who filed comments in opposition to the Companies' proposal has presented evidence rebutting the Company's conclusions as presented in Mr. Daly's pre-filed testimony. Accordingly, there is ample support that the Companies' conclusion regarding the effect of gaming on Basic Service prices is accurate and a compelling basis for the Companies' proposal.

3. The Companies' Proposal Is Narrowly Tailored to Address the Issue of Gaming.

Several participants opposing the Companies' proposal contend that it would serve to inhibit legitimate competitive activity by large C&I customers (Compact Comments at 2, MASCO Comments at 5-6, RESA Comments at 12-13, TransCanada Comments at 3-4). On the contrary, the Companies' proposal does not prohibit customers that return to Basic Service from a Supplier from re-entering the competitive market, even shortly after leaving a Supplier. The Companies' proposal would merely restrict a customer from returning from Basic Service to the same Supplier that served it within the prior six months, as a means of providing a disincentive for a Supplier to park a customer on Basic Service and pull that customer back onto their competitive service during the term of the customer's contract. The myriad competitive options for large C&I customers would continue to be available (there are 14 active retail competitive suppliers serving NSTAR Electric's large C&I customers). In addition, not only would the Companies' proposal provide a disincentive for the Supplier to "game" Basic Service, it would likely provide an additional incentive to Suppliers to negotiate with their customers prior to the conclusion of the customer's contract to retain the customer on their competitive service and keep the customer off of Basic Service.

Indeed, compared to neighboring New England states that have implemented anti-gaming provisions, the Companies proposal is far less restrictive. For example, Connecticut does not allow a customer that has left a Supplier for basic service to return to competitive supply for 1 year. Conn. Gen. Stat. § 16-244c(e)(1).. In addition, Maine has a similar anti-gaming provision whereby a customer that returns to utility-procured generation service from a competitive provider must remain on utility service for one year unless a customer pays an "opt-out" fee equivalent to two times the customer's highest utility generation bill. See Order Adopting Rule and Statement of Factual and Policy Basis, Docket No. 2000-904 (January 24, 2001).

NSTAR Electric does acknowledge an unintended effect of the Companies' proposal raised by several of the participants, i.e., the proposed tariff language, as drafted, could be interpreted to prevent a customer that leaves a Supplier for Basic Service at the end of a Supplier contract from returning to the same Supplier within a six-month period after consideration of market options. This was not the Companies' intent; rather, the Companies' proposal was directed to limit customer switching within the ordinary contract term between customers and Suppliers. Accordingly, the Companies' propose that the Department consider the following revision to the Companies' proposed Terms and Conditions to address this issue:

⇒ **Proposed Further Revision to NSTAR Electric Terms and Conditions-Distribution Services**

5F. Generation Source

The Company shall reasonably accommodate a change from Standard Offer Service, Default Service or Generation Service to a new Competitive Supplier in accordance with the Terms and Conditions for Competitive Suppliers, and shall accommodate a change to Standard Offer Service or Default Service from Generation Service; provided, however, that when a Customer changes from a Competitive Supplier to Default Service, unless the Customer or the Customer's applicable Competitive Supplier can demonstrate to the Company's reasonable satisfaction that the Customer has been placed on Default Service upon the expiration of a contract with such Competitive Supplier, the Customer is not permitted to return to the same Competitive Supplier for a period of six (6) months from the effective date of the change. Customers are permitted to switch from Default Service to a different Competitive Supplier who has not supplied the Customer with Generation Service in the same six (6) month period.

⇒ **Proposed Further Revision to NSTAR Electric Terms and Conditions-Competitive Supply**

3A. Customer

A Customer shall select one Competitive Supplier for each account at any given time, or authorize an agent to make the selection for the Customer, for the purposes of the Distribution Company (1) reporting the Customer's hourly electric consumption to the ISO-NE, and (2) providing billing services. The Customer must provide the selected Competitive Supplier with the information necessary to allow the Competitive Supplier to initiate Generation Service, in accordance with Section 5A, below. A Customer may choose only a Competitive Supplier that is licensed by the M.D.T.E.

The Company shall reasonably accommodate a change from Default Service or Generation Service to a new Competitive Supplier in accordance with the Terms and Conditions for Competitive Suppliers, and shall accommodate a change to Default Service from Generation Service; provided, however, that when a Customer changes from a Competitive Supplier to Default Service, unless the Customer or the Customer's applicable Competitive Supplier can demonstrate to the Company's reasonable satisfaction that the Customer has been placed on Default Service upon the expiration of a contract with such Competitive Supplier, the Customer is not permitted to return to the same Competitive Supplier for a period of six (6) months from the effective date of the change. Customers are permitted to switch from Default Service to a different Competitive Supplier who has not supplied the Customer with Generation Service in the same six (6) month period.

Nothing in these Terms and Conditions shall prohibit a Customer from entering into arrangements with multiple suppliers, provided that a single Competitive Supplier is designated for the purposes described above.

The proposed revised language is intended to allow customers that wish to return to a previous Supplier to do so, to the extent that the customer or the applicable Supplier can demonstrate to the reasonable satisfaction of the Companies that the customer is doing so at the end of a prior contract that has expired, rather than during the term of an existing contract. The Companies believe that this proposed further revision is an additional good-faith attempt at addressing Basic Service gaming, while acknowledging the legitimate market practices of most Suppliers and customers regarding the procurement of competitive supply. To the extent that the Department agrees with these further revisions, the Companies would file compliance tariffs consistent with the proposed added language reflected above.

4. The Companies' Proposal Is Likely to Result in Decreased Basic Service Load Volatility Relating to Large C&I Customers.

DOER and RESA allege that the Companies' proposal will not affect Basic Service load volatility to the extent that customers that leave a Supplier for Basic Service contract with a different Supplier after a brief period on Basic Service (DOER at 5, RESA at 11-12). Specifically, DOER notes that the Companies' proposal "does not eliminate load switching, per se" (DOER Comments at 5) and RESA contends that the proposal "would not solve the problem that purportedly inspired it - namely migration risk" (RESA Comments at 11).

NSTAR Electric agrees that its proposal will not "eliminate" load switching or "solve" migration risk; it is not intended to accomplish either. The proposal merely attempts to target the 82 percent of multiple switches on and off the Companies' Basic Service associated with three Suppliers (and, more specifically, the 72 percent of multiple switches associated with one Supplier). To the extent that the Companies' proposal inhibits or eliminates this practice, Basic Service load volatility associated with large C&I customers will necessarily decrease, with a corresponding decrease in wholesale Basic Service prices for customers.

5. The Companies' Proposal Can Be Implemented in the Near-Term and Affect Prices in Early 2006, Unlike the Alternatives Offered by Other Participants.

Several alternatives to the Companies' proposal were offered, including:

- requiring hourly pricing for large C&I customers (Direct Comments at 10-12, DOER at 6-7, RESA at 14-17, and TransCanada at 6);

- requiring NSTAR Electric to redesign its rates to remove its small C&I customers (e.g., on Boston Edison Rate T-2) from quarterly Basic Service procurement (TransCanada Comments at 5);

- allowing electric companies to procure Basic Service for large C&I customers in a "fixed block"; any imbalance would be sold or procured through from the NEPOOL spot market, thereby eliminating volume risk for wholesale suppliers (TransCanada Comments at 6-7);

- investigating the Suppliers that allegedly game Basic Service (Direct Comments at 9);

- requiring monthly Basic Service procurement for large C&I customers (RESA Comments at 17-18);

- requiring Basic Service to be procured in various-sized "tranches," allowing wholesale suppliers to limit risk by bidding on only a part of the available load (RESA Comments at 18-19); and

- requiring electric companies to exit the commodity market (Direct Comments at 12-14).

NSTAR Electric need not address the pros and cons of these alternatives at length in the context of its reply comments because each of these alternative proposals cannot be implemented in time to address Basic Service load volatility prior to the Companies' next Basic Service solicitation for large C&I customers. Moreover, each of the above-referenced alternatives raises a host of policy and cost considerations that are more appropriately explored in generic proceedings over a longer-term horizon.

For example, the implementation of hourly pricing for Basic Service has billing, metering and implementation costs that would likely cost tens of millions of dollars for utilities and customers and may introduce an unacceptable level of price volatility for customers. See, e.g., Default Service, D.T.E. 02-40-B at 38. This measure would be an overly broad and expensive means of addressing a narrow behavioral issue by a small number of suppliers. In contrast, the Companies' proposal can be implemented easily through minor changes in terms and conditions coupled with relatively inexpensive software modifications. To the extent that the Department determines that exploration of these other alternatives is a worthy objective, the Department can pursue them without inhibiting the Department from approving the Companies' proposal in time for implementation in early 2006.

The Companies' proposal is a reasonable, narrowly tailored approach to the problem of Basic Service gaming that the Department can implement within the next month, without creating a conflict that would affect broader policy decisions relating to the above-referenced alternatives. Accordingly, the Companies request that the Department approve their proposed Terms and Conditions, as further revised pursuant these comments.

IV. CONCLUSION

NSTAR Electric appreciates the opportunity to submit reply comments[3] in this proceeding and requests that the Department adopt its proposal consistent with the comments provided herein.

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[3] Mr. Daly adopts the factual matters discussed in these reply comments, along with his pre-filed testimony, in the Affadavit accompanying these comments.

Respectfully submitted,

BOSTON EDISON COMPANY
CAMBRIDGE ELECTRIC LIGHT COMPANY
COMMONWEALTH ELECTRIC COMPANY

By their Attorney,

John K. Habib

John K. Habib, Esq.
Keegan Werlin LLP
265 Franklin Street
Boston, MA 02110
(617) 951-1400

Dated: December 29, 2005

Attachment A-1

J. Aron & Company | 85 Broad Street | New York, New York 10004
Tel: 212-902-1000

Goldman Sachs

December 22, 2005

James G. Daly
Director, Electric & Gas Energy Supply
NSTAR Electric & Gas
One NSTAR Way, NE 220
Westwood, MA 02090

As you know, we were referenced in the cover letter to the revised tariff filing of Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company dated November 21, 2005 to the Department of Telecommunications and Energy as being generally supportive of the proposed tariff change. The proposed tariff revision involved a proposal to address increased default service load volatility relating to the practice of switching large commercial and industrial customers on and off default service multiple times within a short period to take advantage of price fluctuations.

From the perspective of a potential supplier of default service, we agree that the switching practices described in the revised tariff proposal are problematic. The described switching practices dramatically increase the risks faced by suppliers as they create a high degree of uncertainty concerning the size of the load that suppliers will be required to serve. As the size of the load to be served becomes difficult to predict, the supply obligation becomes more difficult for potential suppliers to hedge, thereby increasing their risk.

Because of this increased risk, we have generally declined to participate in the request for proposal processes relating to the large commercial and industrial class; if we were to participate, the presence of the risk under the current rules would lead us to offer a higher price than if the risk were reduced.

We hope that this letter is helpful in clarifying the risks faced by potential suppliers under the current rules.

Very truly yours,

Leslie Biddle

Leslie Biddle

Sempra Energy
Trading®

Sempra Energy Trading Corp.
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December 23, 2005

James G. Daly
Director, Electric & Gas Energy Supply
NSTAR Electric & Gas
One NSTAR Way, NE 220
Westwood, MA 02090

Dear Mr. Daly:

Sempra has been requested to comment on NSTAR's proposed changes to the NSTAR Electric Terms and Conditions.

Sempra agrees with the NSTAR analysis and the testimony that you provided stating the Default Service load volatility increases the cost of serving this group of customers. The increased cost is ultimately borne by these customers.

The proposed change, in my opinion, will lower the cost of serving the Default Service while still maintaining consumer access to retail providers. The solution directs its focus not on the consumer but the retail marketer that is exploiting the ability to park consumers on the Default Service. The consumer will continue to enjoy the same rights that they have today while the retail marketers become more limited in capturing this value for their own benefit.

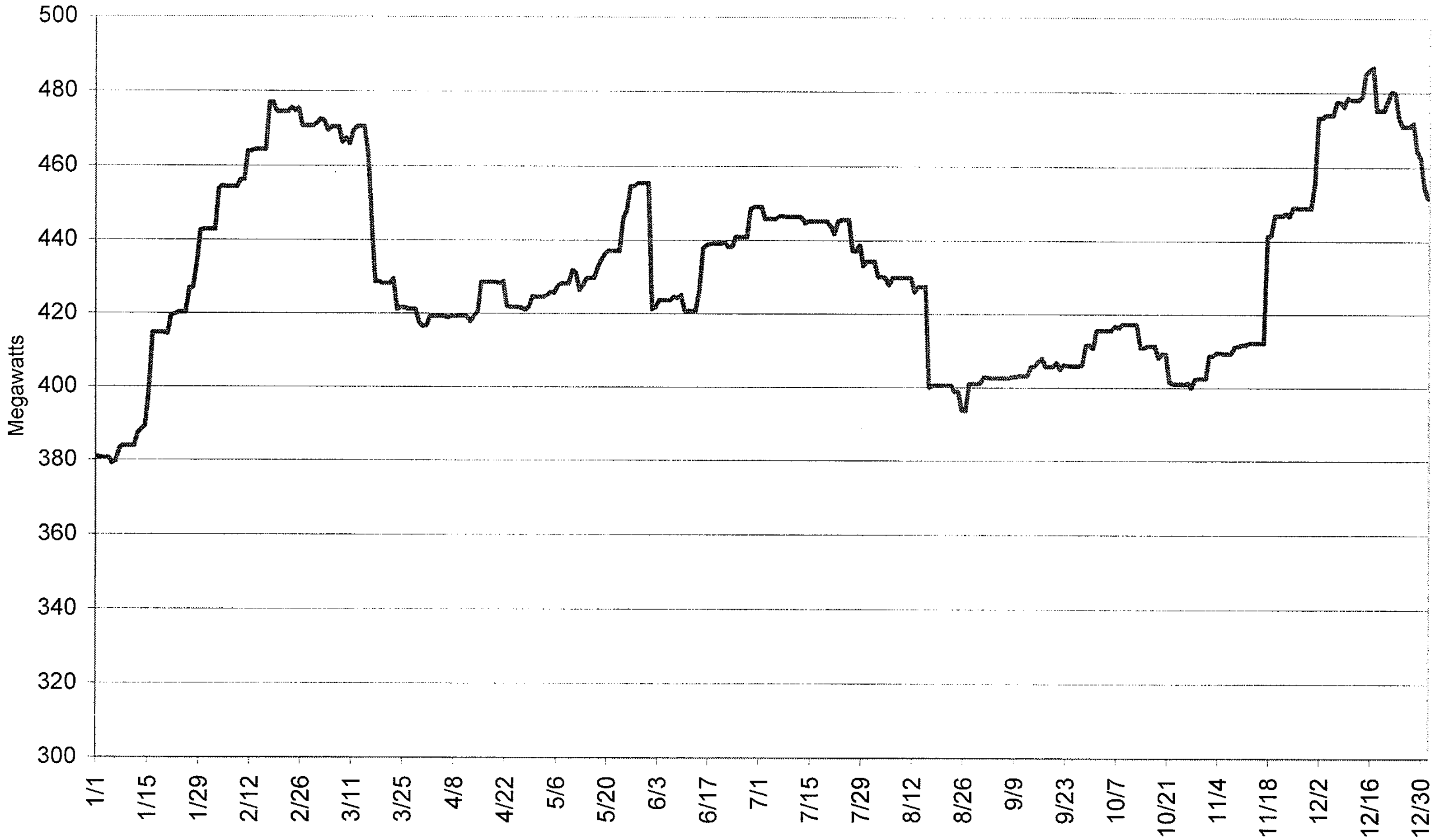
Regards,

Jean-Paul St.Germain
Vice President

Attachment B-1

2004

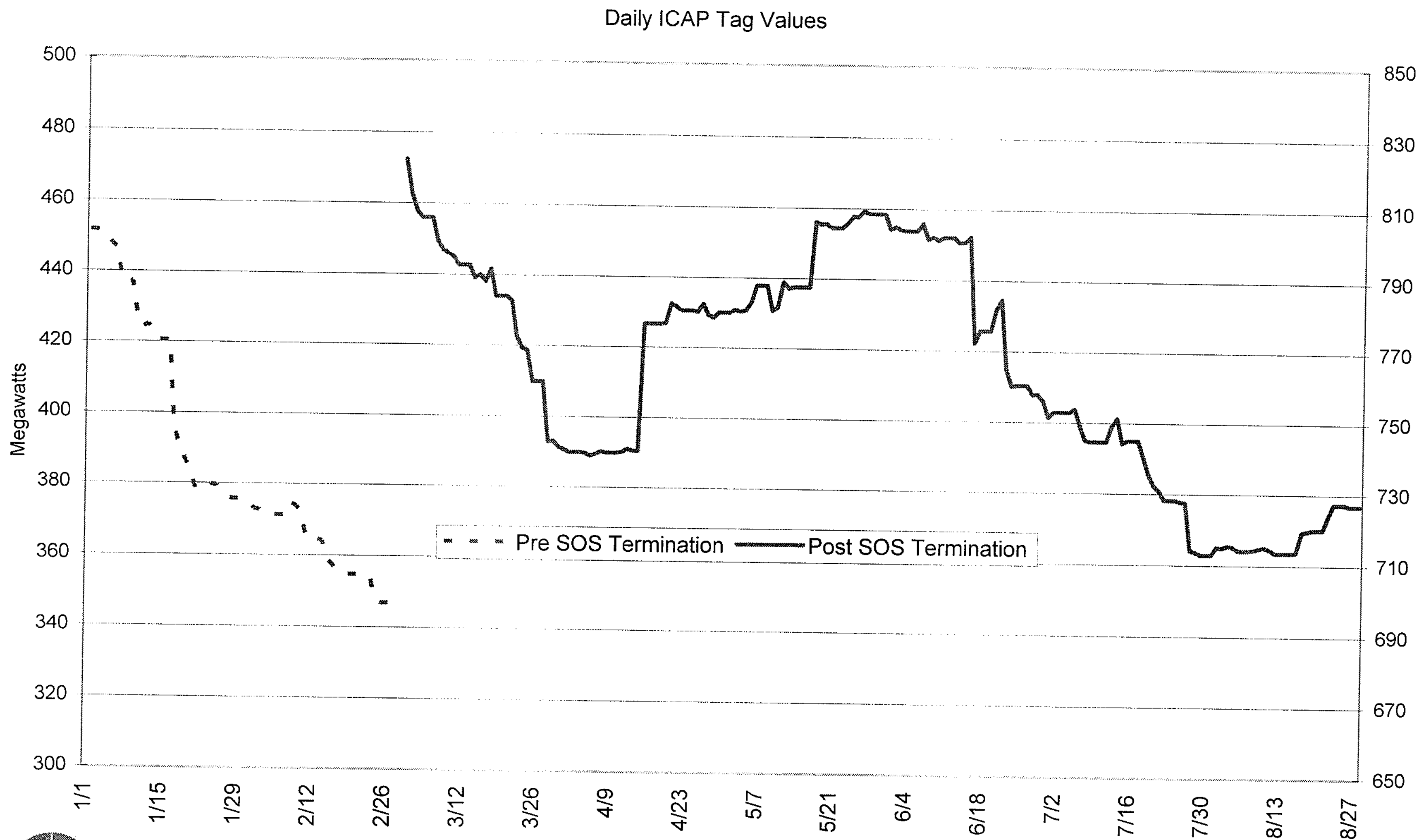
Daily ICAP Tag Values



NSTAR

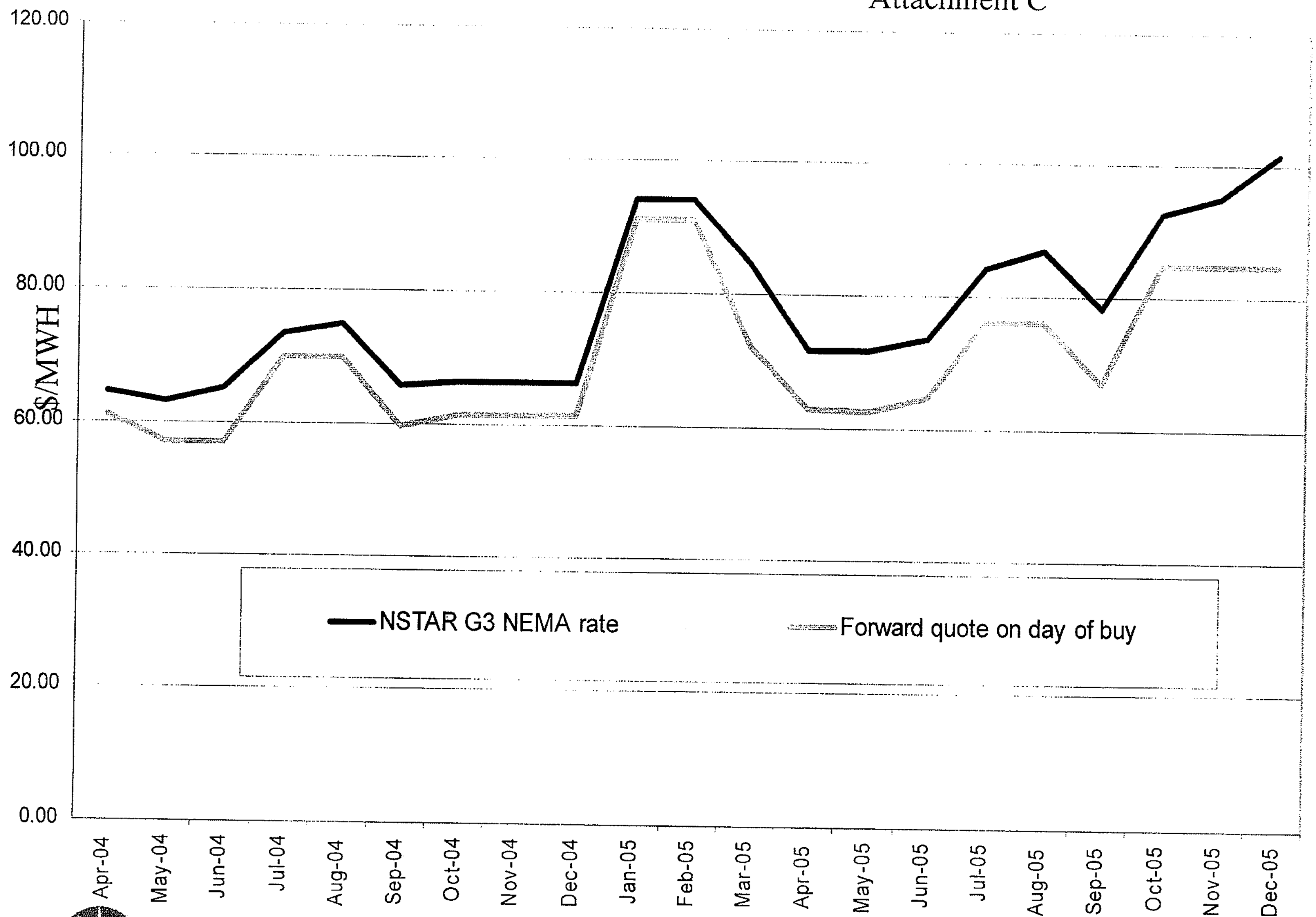
Attachment B-2

2005



NSTAR

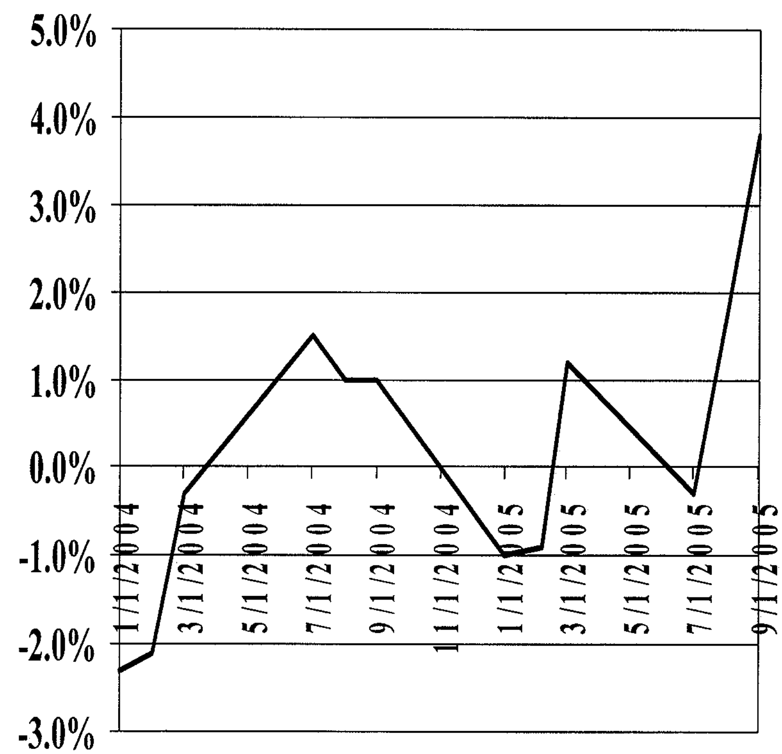
Attachment C



Attachment D

Premium on Large C& I increasing

	Small C&I	Large C&I	% premium
Jan 04	64.15	62.71	-2.3%
Feb 04	62.36	61.09	-2.1%
Mar 04	59.89	59.74	-0.3%
Jul 04	67.17	68.16	1.5%
Aug 04	68.80	69.49	1.0%
Sept 04	60.58	61.21	1.0%
Jan 05	88.08	87.19	-1.0%
Feb 05	87.98	87.21	-0.9%
Mar 05	77.44	78.42	1.2%
Jul 05	77.83	77.61	-0.3%
Aug 05	78.61	79.97	1.7%
Sep 05	69.41	72.13	3.8%



NSTAR

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Petition of Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company, d/b/a NSTAR Electric, for approval of revised tariffs M.D.T.E. Nos. 100A, 101A, 200A, 201A, 300A and 301A relating to the terms and conditions for distribution service and competitive suppliers	)	D.T.E. 05-84

AFFIDAVIT OF JAMES G. DALY

James G. Daly, being duly sworn, deposes and says as follows:

1. I am the Director, Electric and Gas Energy Supply for Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, each d/b/a NSTAR Electric ("NSTAR Electric") and NSTAR Gas Company (collectively, with NSTAR Electric, the "Companies"). In this capacity, I am responsible for coordinating the procurement of supplies for Default Service for NSTAR Electric.

2. I graduated from Trinity College in Dublin, Ireland with a Bachelor Degree in Electric Engineering and from University College in Dublin, Ireland with a Masters in Industrial Engineering. After serving for eight years as Regional Marketing Engineer/Senior Engineer for the Electricity Supply Board in Dublin, Ireland, I served from 1988-2000 as Senior Vice President of Unitil Service Corporation, with lead responsibility for energy procurement, operations and management of energy to various Unitil subsidiaries. In addition to this position, from 1990-1998, I was the President of Unitil Power Corporation, with lead responsibility for designing energy portfolios based on purchased power and gas and negotiating all major power contracts. From 1998-2000, I was President of Unitil Resources, Inc., where, among other responsibilities, I was responsible for selling power for Great Bay Power Corporation. During 2000-2001, I held the position of Executive Vice President, Network Operations for Enermetrix.com, Inc., where I was responsible for developing an Internet based network for large retail customers to procure electricity and natural gas and ensuring the long-term integrity of the network. From 2001-2003, I was Vice President/Director of Power Market Development for Sprague Energy Corporation where I was responsible for developing a start-up retail electricity business servicing large customers. I assumed my present position on July 7, 2003.

3. In my current position, I am responsible for securing a least-cost energy supply and for mitigating the cost incurred under existing above-market power purchase agreements. My responsibilities currently include supervising employees whose responsibilities include securing supply for default service and wholesale energy customers.

4. On November 21, 2005, the Companies filed a request with the Department of Telecommunications and Energy (the "Department") for approval of revised Terms and Conditions for Distributions Services and Competitive Suppliers, respectively, which the Department docketed as D.T.E. 05-84. In support of the Companies' request, I prepared Exhibit NSTAR-JGD-1 (the "Testimony"), which was also filed on November 21, 2005.

5. In addition, on December 29, 2005, the Companies provided the Department with Reply Comments, including six attachments (see D.T.E. 05-84, NSTAR Electric Reply Comments, Attachments A-1, A-2, B-1, B-2, C and D). Attachments B-1, B-2, C and D were prepared under my supervision.

6. In particular, as seen in Attachments B-1 and B-2, NSTAR Electric's Basic Service Load has experienced significant volatility over the past year or so.

7. In addition, as seen in Attachments C and D, during this same period, large commercial and industrial ("C&I") customers have experienced a widening Basic Service price premium as compared to both the forward market for power, and the Basic Service prices available to small C&I customers.

8. Based on these data and discussions that NSTAR Electric has had with wholesale generation suppliers, NSTAR Electric has concluded that the significant Basic Service load volatility is a contributing factor to the Basic Service price premium evident in Basic Service prices for large C&I customers. This incremental cost is borne by all customers.

9. I hereby adopt the Testimony, the factual representations in the Reply Comments and Attachments B-1, B-2, C and D as supplemented by this affidavit as my true and accurate sworn testimony.

Signed under the pains and penalties of perjury this 29th day of December 2005.

James G. Daly

James G. Daly